

GOLD CANYON SEWER COMPANY

DOCKET NO. SW-02519A-06-0015

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 16, 2006

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1 **INTRODUCTION**

2 Q. Please state your name, position, employer and address.

3 A. Rodney L. Moore, Public Utilities Analyst V

4 Residential Utility Consumer Office ("RUCO")

5 1110 West Washington Street, Suite 220

6 Phoenix, Arizona 85007.

7

8 Q. Please state your educational background and qualifications in the utility
9 regulation field.

10 A. Appendix 1, which is attached to this testimony, describes my educational
11 background and includes a list of the rate case and regulatory matters in
12 which I have participated.

13

14 Q. Please state the purpose of your testimony.

15 A. The purpose of my testimony is to present RUCO's recommendations
16 regarding Gold Canyon Sewer Company ("Company" or "Gold Canyon")
17 application for a determination of the fair value of its utility plant and
18 property and for increases in its rates and charges for utility service based
19 thereon. The test year utilized by the Company in connection with the
20 preparation of this application is the 12-month period that ended October
21 31, 2004.

22 . . .

23 . . .

BACKGROUND

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's filing as it relates to the rate base, operating income and revenue requirements. My recommendations are based on these analyses. Procedures performed include the in-house formulation and analysis of three sets of Data Requests, and the review and analysis of Company responses to Commission Staff Data Requests.

The Commission in Decision No. 641867, dated October 30, 2001, approved the Company's present rates and charges for utility service.

Q. What areas will you address in your testimony?

A. I will address issues related to revenue requirement, rate base, operating income and rate design. RUCO's witness William A. Rigsby will provide an analysis of the cost of capital as presented on Schedule RLM-14.

Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring Schedules numbered RLM-1 through RLM-15.

...

...

...

...

SUMMARY OF ADJUSTMENTS

Q. Please summarize the adjustments to rate base, operating income and revenue requirement addressed in your testimony.

A. My testimony addresses the following issues:

Rate Base

Accumulated Depreciation – This adjustment recalculates accumulated depreciation to correct the Company’s computation error in determining the half-year convention portion of accumulated depreciation.

Accumulated Amortization For Contribution In Aid Of Construction (“CIAC”) – This adjustment recalculates accumulated amortization to correct the Company’s computation error in determining the ten-twelfths portion of 2005 (January to October equals 10/12th of a year) accumulated amortization computation.

Allowance For Working Capital - This adjustment restates the allowance for working capital to reflect RUCO’s recommended operating expenses.

Excess Plant Capacity – This adjustment restates the test-year plant, accumulated depreciation, CIAC and the accumulated amortization of CIAC values to reflect RUCO’s recommended disallowance of excess capacity in the wastewater treatment plant.

Capitalization Of Test-Year Operating Expenses – These adjustments reclassify some operating expenses as test-year plant additions.

...

...

Operating Income

Test-Year Depreciation Expense – This adjustment changes test-year operating expenses to reflect computations based on RUCO’s recommended disallowance of excess plant capacity.

Property Taxes Expense - This adjustment reflects the Company’s property tax based on the use of the Arizona Department of Revenue formula.

Rate Case Expense – This adjustment is based on RUCO’s determination of the fair and reasonable cost to Gold Canyon ratepayers for this application process.

Revenue Annualization –This adjustment increases the revenue annualization as filed. The Company has agreed to RUCO’s adjustment.

Annualization Of Purchased Power – This adjustment reflects RUCO’s customer level due to annualization. The Company and RUCO are in substantial agreement with the adjusted annualization of the purchased power expense.

Purchased Power – SRP Increase – This adjustment reflects RUCO’s customer level due to annualization. The Company and RUCO are in substantial agreement with the adjusted annualization of the purchased power expense related to the SRP increase.

...

...

...

1 Algonquin Water Services (“AWS”) Contract Billing - This adjustment
2 reflects RUCO’s customer level due to annualization. The Company and
3 RUCO are in substantial agreement with the adjusted AWS contract billing
4 expense.

5 RUCO Adjustments To Test-Year Operating Expenses – These
6 adjustments remove unnecessary and/or inappropriate operating
7 expenses not required for the provisioning of wastewater service.

8 RUCO Capitalization Of Test-Year Operating Expenses – These
9 adjustments reclassify some operating expenses as test-year plant
10 additions.

11 RUCO Adjustments To Test-Year Operating Expenses – These
12 adjustments remove non-recurring atypical operating expenses.

13 Income Tax Expense – This adjustment reflects income tax expenses
14 calculated on RUCO’s recommended revenues and expenses.

15 **Rate Design and Proof of Recommended Revenue**

16 I am recommending a rate design that is generally consistent with the
17 Company’s present rate design, but reflects RUCO’s recommended
18 revenue requirement and provides proof the design will produce the
19 appropriate revenue requirement.

20 . . .

21 . . .

22 . . .

23 . . .

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedule RLM-1, RUCO is recommending that the Company's revenue requirement not exceed:

<u>GOLD CANYON</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
\$4,971,147	\$3,536,964	(\$1,434,183)

RUCO's recommended increase in Fair Value Rate Base ("FVRB") is based on the Original Cost Rate Base ("OCRB") and is summarized on Schedule RLM-1:

<u>GOLD CANYON</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
\$16,108,688	\$13,368,387	(\$2,7403,301)

RUCO's recommended required operating income is shown on Schedule RLM-1 as:

<u>GOLD CANYON</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
\$1,691,412	\$1,177,755	(\$513,657)

RUCO's recommended revenue requirement percentage increase versus the Company's proposal is as follows:

<u>GOLD CANYON</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
99.13 %	41.68 %	-57.45 %

1 Schedule RLM-1 presents the calculation of RUCO's recommended
2 revenue requirement.

3

4 **RATE BASE**

5 Rate Base Adjustment Summary

6 Q. Is RUCO recommending any changes to the Company's proposed rate
7 base?

8 A. Yes. As shown on Schedule RLM-2, columns (A) through (F), I analyzed
9 the Company's adjustment to its historical test-year OCRB and made five
10 adjustments to the rate base as filed by the Company.

11

12 RUCO accepts the Company's request that the OCRB be used as the
13 FVRB.

14

15 My review, analysis and adjustments are explained below.

16

17 Rate Base Adjustment No. 1 – Accumulated Depreciation

18 Q. Please explain the basis for your adjustment to the accumulated
19 depreciation.

20 A. The Company failed to calculate the ten-twelfths portion of the 2005
21 (January to October equals 10/12th of a year) accumulated depreciation.

22 . . .

23 . . .

1 As shown on Schedule RLM-2, column (B), this adjustment increases
2 adjusted test-year rate base by:
3 \$61,886.

4

5 Rate Base Adjustment No. 2 – Accumulated Amortization of CIAC

6 Q. Please explain the basis for your adjustment to the accumulated
7 amortization of CIAC.

8 A. The Company incorrectly calculated the ten-twelfths (January to October)
9 portion of the 2005 accumulated amortization of CIAC.

10 As shown on Schedule RLM-2, column (C), this adjustment decreases
11 adjusted test-year rate base by:
12 (\$6,576).

13

14 Rate Base Adjustment No. 3 – Allowance For Working Capital

15 Q. Please explain the basis for your adjustment to the allowance for working
16 capital.

17 A. As shown on Schedule RLM-3, I restated the allowance for working capital
18 to reflect RUCO's adjusted test year level of operations and maintenance
19 expenditures.

20

21 As shown on Schedule RLM-2, column (D), this adjustment decreases
22 adjusted test-year rate base by:
23 (\$13,569).

1 Rate Base Adjustment No. 4 – Disallowance Of Excess Plant Capacity

2 Q. Please explain the basis for your adjustment to disallow excess capacity in
3 the wastewater treatment plant.

4 A This adjustment consists of six elements. First, determination of the
5 percentage of the wastewater treatment plant deemed excessive.
6 Second, the determination of the value of the gross plant attributable to
7 the excess capacity. Third, the determination of the appropriate
8 adjustment to the accumulated depreciation. Fourth, determination of the
9 portion of CIAC attributable to the excess capacity. Fifth, the
10 determination of the appropriate adjustment to the accumulated
11 amortization of CIAC. Sixth, is to support a companion adjustment to the
12 operating expenses to remove the portion of depreciation expense
13 associated with the excess plant.

14
15 Q. Please explain the first element where you determined the percentage of
16 the excess capacity in the Gold Canyon wastewater treatment plant.

17 A. My analysis is based, in part, on the Company's response to RUCO's data
18 requests 2.6 (c) and (d). As shown on Schedule RLM-4 under the
19 heading "NOTE", the Company's data indicates at the end of 2005 the
20 influent flow rate at the Gold Canyon Water Reclamation Facility was
21 0.708 mgd out of a maximum capacity of 1.9 mgd. This indicates that
22 62.74 percent of the total capacity in the new treatment plant is in excess
23 of the test-year ratepayers needs. However, to incorporate an "excess

1 reserve” component I selected the projected flow rate at the end of 2008
2 of 1.367 mgd (equating to an excess capacity of 28.05 percent) as a
3 reasonable determinant to calculate the percentage of excess capacity at
4 this wastewater treatment plant.

5

6 Therefore, I determined the existing ratepayers should not be burdened
7 with net costs associated with 28.05 percent of the test-year plant
8 additions to expand the wastewater treatment facility to 1.9 mgd.

9

10 Q. Please explain the second element where you determined the value of the
11 gross plant considered excess capacity in the Gold Canyon wastewater
12 treatment plant.

13 A. My analysis is based, in part, on the Company’s Workpapers referenced
14 as “fixed asset additions 2 for Tom”. As shown on Schedule RLM-4,
15 columns (A) and (B), the total cost of the plant expansion was
16 \$10,343,434 and since 28.05 percent is excess I calculated \$2,901,605 of
17 gross plant should be removed from the rate base.

18

19 Q. Please explain the third element where you determined the accumulated
20 depreciation associated with the gross plant considered excess capacity in
21 the Gold Canyon wastewater treatment plant.

22 A. As shown on Schedule RLM-4, columns (C) and (D), the authorized
23 depreciation rate is 2.5 percent; therefore utilizing the half-year convention

1 on the excess capacity gross plant I calculated the accumulated
2 depreciation as \$36,270 and thus reinstated the amount in the rate base.

3

4 Q. Please explain the fourth element where you determined the CIAC
5 associated with the gross plant considered excess capacity in the Gold
6 Canyon wastewater treatment plant.

7 A. My analysis is based, in part, on the Company's 2005 hook-up fee report
8 filed at the Commission in compliance with Decision No. 64186. As
9 shown on Schedule RLM-4, lines 27 and 28, the amount of CIAC used in
10 conjunction with the plant expansion was \$275,500 and since 28.05
11 percent is excess I calculated \$77,285 of CIAC should be reinstated in the
12 rate base.

13

14 Q. Please explain the fifth element where you determined the accumulated
15 amortization associated with the CIAC contributed to the excess capacity
16 in the Gold Canyon wastewater treatment plant.

17 A. As shown on Schedule RLM-4, lines 27 and 28, the authorized
18 amortization rate is 2.5 percent; therefore utilizing the half-year convention
19 on the CIAC associated with the excess capacity I calculated the
20 accumulated amortization as \$966 and thus removed the amount from the
21 rate base.

22 ...

23 ...

1 Aggregately, this adjustment equals \$2,789,016 ($\$2,901,605 - \$36,270 -$
2 $\$77,285 + \$966 = \$2,789,016$).

3
4 As shown on Schedule RLM-2, column (E), this adjustment decreases
5 adjusted test-year rate base by:
6 (\$2,789,016).

7

8 Q. Please explain the sixth element to support a companion adjustment to
9 operating income.

10 A. As shown on Schedule RLM-8, column (A), RUCO's adjusted test-year
11 total plant value reflects the disallowance of this excess capacity and
12 becomes a determinant in the calculation of the adjusted depreciation
13 expense.

14

15 Q. In conclusion, does RUCO take issue with the Company's prudent
16 decision to expand the treatment facility capacity to the level needed to
17 serve the community at full build-out?

18 A. RUCO commends Gold Canyon for the pro-active approach it has taken to
19 mitigate operational deficiencies and consumer problems. However, there
20 is a timing issue as to who should pay for the expansion costs associated
21 with future customers and when should the Company be reimbursed for its
22 capital investment.

23 . . .

1 RUCO asserts that the present ratepayers are only financially responsible
2 for the portion of the treatment plant dedicated to their needs. The excess
3 capacity should be deferred until it becomes used and useful and
4 recoverable from future customers.

5

6 Rate Base Adjustment No. 5 – Capitalization of Plant Formerly Expensed

7 Q. Please explain the basis for your capitalization of operating expenses and
8 adjustment to gross plant in service and accumulated depreciation.

9 A. This adjustment is, in part, a companion adjustment to Operating Income
10 Adjustment No. 11 – RUCO Capitalization Of Operating Expenses and
11 consists of two elements. First, is to increase the gross plant in service by
12 the addition of the capitalized items; and second, is to recognize the
13 accumulated depreciation associated with the new plant additions.

14

15 Q. Please explain the first element to include additional plant items in test-
16 year gross plant that were formerly expensed.

17 A. I capitalized two items, the cost of a microscope and the cost for
18 engineering inspections.

19

20 Q. Please explain the basis for capitalizing the microscope.

21 A. The cost of the microscope was \$1,648, which exceeds the expensed
22 criteria outlined in the Company's response to Staff data request CSB
23 2.20.

1 Q. Please explain the basis for capitalizing the costs for engineering
2 inspections.

3 A. My analysis is based, in part, on the Company's response to RUCO data
4 request 3.4, where two identical invoices for engineering inspections are
5 treated differently. One invoice is processed and recorded in operating
6 expenses, while the second invoice is proportioned between capital
7 projects and operating expenses. After reviewing the invoices I
8 determined both invoices should be treated similarly and be proportioned
9 60 percent to rate base and 40 percent to operating expenses. The
10 calculation is shown on Schedule RLM-11, under NOTE A and results in
11 an increase of \$5,397.

12

13 Q. Please explain the second element to calculate the accumulated
14 depreciation associated with the capitalized plant.

15 A. As shown on Schedule RLM-5, line 32, I calculated the test-year
16 accumulated depreciation for the capitalized plant using the authorized
17 depreciation rate and the half-year convention.

18

19 As shown on Schedule RLM-2, column (F), the total adjustment increases
20 adjusted test-year rate base by:

21 \$7,045.

22 . . .

23 . . .

OPERATING INCOME

Operating Income Adjustment Summary

Q. Is RUCO recommending any changes to the Company's proposed operating expenses?

A. Yes. As shown on Schedule RLM-7, columns (A) through (I), I analyzed the Company's twelve adjustments to its historical test-year operating income and made eight adjustments to the operating income as filed below. However, I believe the Company and RUCO are in substantial agreement with four of my adjustments.

Operating Income Adjustment No. 1 – Test-Year Depreciation Expense

Q. Please explain your adjustment to the test-year depreciation expense.

A. As shown on Schedule RLM-7, this adjustment reflects RUCO's end of test year gross plant in service and calculates the depreciation expense based on depreciation rates proposed by the Company and accepted by RUCO. The entire adjustment is driven by the disallowance of excess capacity in the treatment plant as explained previously in my testimony.

As shown on Schedule RLM-7, column (B), this adjustment decreases adjusted test-year operating expenses by:

(\$126,675).

...

...

1 Q. In conclusion, is RUCO recommending additional accounting treatment
2 associated with the disallowance of the excess capacity in the treatment
3 plant in order to keep the Company whole?

4 A. Yes, the Company should establish a deferred depreciation expense
5 account to record depreciation expenses on the disallowed plant.

6
7 This will allow the Company a vehicle in subsequent rate filings to request
8 reimbursement of these costs when the excess plant becomes used and
9 useful.

10

11 Operating Income Adjustment No. 2 – Property Tax Computation

12 Q. Please explain your adjustment to the Property Tax Expense account.

13 A. As shown on Schedule RLM-8, I made an adjustment to reflect the
14 Company's property tax based on the use of the ADOR formula.

15

16 Q. Please explain the basis for RUCO's adjustment to property tax expenses.

17 A. As has been debated in several recent water utility rate case applications
18 before the Commission, RUCO has repeatedly demonstrated and proven
19 that using historical revenues in the ADOR formula, as the formula
20 dictates, is the best estimate of future property taxes.

21 . . .

22 . . .

23 . . .

1 RUCO is more convinced than ever that this is the proper way to measure
2 property tax, now that actual post-test-year property tax expense is
3 known, and comparisons can be made.

4
5 In this case the comparison of actual property tax for 2005 to the
6 estimates using the ADOR recommended revenues and the Company's
7 recommended revenues illustrates that the use of ADOR's formula is far
8 more accurate.

9

10 Q. How does this Company methodology vary from the ADOR formula?

11 A. The Company has varied the ADOR formula by using, for valuation
12 purposes, two years of adjusted revenues plus one year of proposed
13 revenues.

14

15 The property tax formula, as prescribed in ADOR's memo of January 3,
16 2001, determines the Full Cash Value ("FCV") of water utilities, for
17 property tax purposes, by multiplying the average of the three previous
18 years of reported gross revenues of the Company by a factor of two.

19

20 Q. What is the result of the Company's calculation of the property tax pro-
21 forma adjustment?

22 A. The result is a FCV, which will likely allow the Company to over-earn
23 based on its expected property tax expense. Among the goals of ADOR

1 was to arrive at a forward looking valuation formula that would produce
2 predictable values, logical results and minimize the tax impact from the
3 previous year.

4

5 Q. Do you have any evidence RUCO's calculation is more appropriate?

6 A. Yes, I do. The evidence in this case once again attests to the accuracy of
7 RUCO's calculation. Using ADOR's formula, RUCO's recommended
8 property tax expense for 2005 is \$175,355. By comparison, the
9 Company's proposed 2005 property tax expense is \$253,982. The actual
10 property tax assessed by ADOR for 2005 is \$143,663. Thus, the ADOR
11 formula results in a more accurate level of property tax expense than does
12 the Company's "modified" formula.

13

14 It is unlikely that the Company will generate revenues consistent with its
15 estimates in the near future. The Company would be over-collecting the
16 property tax expense for quite a few years before the actual assessment
17 would catch up to the Company's 2005 projected revenue. In the
18 meantime, the Company will be recovering its property tax expense based
19 on an inflated revenue projection.

20 ...

21 ...

22 ...

23 ...

1 Q. When will the Company pay the property tax impacted by the changes in
2 revenues approved in this rate case?

3 A. Assuming rates go into effect by the end of 2006, it will not be until the end
4 of 2007 before the Company will have one full year of operating revenues
5 at the new rates.

6
7 The Company will pay property taxes for the tax-year 2007 semi-annually,
8 the first payment becoming due in October 2007, and the final payment
9 due in March 2008. The impact that this rate increase has on the property
10 tax assessment will take two additional years before being fully reflected
11 on the property tax bill.

12
13 Therefore, the ADOR calculation that encompasses the full affect of the
14 authorized rate relief in the instant case will not be computed until 2010,
15 because it is not until then that historical years 2007, 2008 and 2009 will
16 be assessed.

17
18 Q. What evidence does RUCO have to promote its position and reinforce its
19 recommendation on how to implement the ADOR Formula?

20 A. RUCO reviewed the Company's workpapers and specifically Gold
21 Canyon's annual reports.

22 . . .

23 . . .

1 RUCO extracted a preponderance of evidence that clearly indicates the
2 ADOR formula adequately provides financial coverage for property tax
3 liabilities. On the other hand, the Company's modified calculation blatantly
4 overstates the 2005 property tax expenses.

5

6 Therefore, RUCO continues to advocate the appropriateness and
7 superiority of the ADOR formula to accurately project future property taxes
8 for ratemaking purposes. RUCO asserts this data demonstrates that its
9 property tax arguments are correct and should be used in this and future
10 cases.

11

12		ACTUAL ADOR	ADOR/RUCO	COMPANY
13	<u>YEAR</u>	<u>ASSESSMENT</u>	<u>FORMULA</u>	<u>MODIFIED</u>
14	2002	\$70,451	N/A	N/A
15	2003	\$78,449	\$148,976	N/A
16	2004	\$123,136	\$195,938	N/A
17	2005	\$143,663	\$175,355	\$253,982

18

19 Q. Please summarize your adjustment to the property tax expense.

20 A. As shown on Schedule RLM-7, column (C), this adjustment decreases
21 adjusted test-year expenses by:

22 (\$78,627).

23 . . .

1 Operating Income Adjustment No. 3 – Rate Case Expense

2 Q. Please explain the adjustment to the rate case expense.

3 A. RUCO made a determination of what should be the financial burden on
4 the ratepayers for costs incurred by the Company for filing this rate case
5 application.

6
7 Q. What level of rate case expense had Gold Canyon requested?

8 A. Gold Canyon is requesting \$160,000 in rate case expense.

9
10 Q. Please explain the basis for determining the appropriate level of rate case
11 expense.

12 A. My adjustment consists of two elements. First, I analyzed previously
13 approved rate case expenses for Gold Canyon; reviewed other rate case
14 expenses authorized by the Commission; and examined the complexity of
15 this rate case to determine a reasonable financial burden on ratepayers
16 for this proceeding. Second, I analyzed the Company's testimony to
17 determine the period to amortize these expenses.

18
19 Q. Please explain your analysis to determine the ratepayers' appropriate
20 level of financial burden for this rate case proceeding.

21 A. My analysis consisted of the following review:

22 1. Present filing and previous Gold Canyon Decision Nos. 64186, and
23 56631;

- 1 2. Arizona-American Decision No. 67093 approved an average of
2 \$41,894 per district;
- 3 3. Arizona Water was authorized rate case expenses for its Northern
4 Group at \$43,400 per district, the Eastern Group at \$31,250 per
5 district, and the Western Group at \$50,710 per district;
- 6 4. For a reality check, I reviewed Decision No. 68487, dated February
7 23, 2006, which approves rate case expenses of \$235,000 for
8 Southwest Gas Corporation ("SWG"), Arizona Division (only
9 \$75,000 more than the Gold Canyon is requesting in the instant
10 case). SWG has a rate base over a billion dollars and a customer
11 base of nearly a million ratepayers. SWG's rate application was
12 very complex with requests for: an unorthodox rate design to
13 decouple revenue recovery from gas sales; an annualized
14 customer base adjusted for weather, growth and declining use;
15 inclusion of post-test-year plant; and the acceptance of both a cost
16 of capital and cost of service study.

17

18 Q. Based on this analysis, what level of rate case expense are you
19 recommending as the financial burden on the ratepayers?

20 A. I am recommending the financial burden on the ratepayers to be \$70,000.

21 ...

22 ...

23 ...

1 Q. How did you calculate rate case expenses of \$70,000 for this proceeding?

2 A. Overall, I had to rely on the level of rate case expense I had computed in
3 recently filed cases, because unfortunately, I was unable to establish a
4 component for my analysis from Gold Canyon's previous rate cases. In
5 Decision No. 64186, dated October 30, 2001, the Commission approved a
6 settlement agreement, which did not address rate case expenses. In
7 Decision No. 56631, dated September 14, 1989, I felt the filing, since it
8 was the CC&N application, to be irrelevant to the instant case and too
9 stale to consider.

10

11 Further, I analyzed the Company's response to RUCO data request 1.13
12 in attempt to establish a reasonable level of rate case expense. The
13 Company's response, under objection, records only \$54,776 in rate case
14 expense of which RUCO considers over \$32,000 to be questionable as to
15 being a reasonable financial burden to the ratepayers.

16

17 Q. Did you consider the instant case to have numerous parties, issues and
18 complex proceedings as stated in the Company witness Mr. Bourassa's
19 testimony on page 10, starting on line 21 that would warrant the
20 extraordinary costs of \$160,000?

21 A. No, there are no contentious issues requiring an abnormal level of
22 discovery, investigation, documentation, post-hearing expenses, or both
23 litigation and a settlement process.

1 Moreover, to further illuminate the reasonableness of RUCO's position I
2 refer to the Commission's position on such expenses in AZ-AM's most
3 recent rate case affecting ten of AZ-AM's districts as stated in Decision
4 No. 67093, dated June 30, 2004 on page 20, lines 17 to 19:

5 "Based on our review of the complexity of this proceeding,
6 the number of systems involved in this rate request, and a
7 comparison of other cases, we find that rate case expense in
8 the amount of \$418,941 is reasonable for this proceeding."
9

10 I incorporated the same criteria as the Commission did when it approved
11 rate case expenses of \$418,941 (or \$41,894 per district) as part of my
12 analysis.

13

14 Therefore, I am recommending rate case expense of \$70,000.

15

16 Q. Please discuss the second element of your adjustment to the rate case
17 expense.

18 A. I accept Company witness Mr. Bourassa's recommendation to amortize
19 rate case expenses in this proceeding over four years.

20

21 Q. Please explain the effect of your two elements of this adjustment on the
22 rate case expense.

23 A. RUCO believes the appropriate annual level of rate case expenses
24 associated with this proceeding is \$17,500 ($\$70,000 / 4 \text{ years} = \$17,500$).

25 . . .

1 Q. Please summarize your adjustment to rate case expenses.

2 A. I adjusted the Company's annual rate case expenses of \$40,000 to
3 RUCO's recommended level of \$17,500 for a decrease in test-year
4 expenses of \$22,500 ($\$40,000 - \$17,500 = \$22,500$).

5

6 As shown on Schedule RLM-7, column (D), this adjustment decreases
7 adjusted test-year expenses by:
8 (\$22,500).

9

10 Operating Income Adjustment No. 4 – Revenue Annualization

11 Q. Please explain your position on this adjustment.

12 A. RUCO disagrees with the Company revenue annualization as filed in its
13 application. The Company and RUCO had an informal discussion and
14 reached an agreement on how the adjustment should be calculated.

15

16 The agreed upon calculation is shown on Schedule RLM-7, column (E),
17 line 1, and decreases adjusted test-year expenses by:
18 (\$11).

19

20 Operating Income Adjustment No. 5 – Reverse Bad Debt Provision

21 Q. Please explain your position on this adjustment.

22 A. The Company and RUCO are in substantial agreement with the adjusted
23 bad debt provision expense as filed in the Company's application.

1 Operating Income Adjustment No. 6 – Remove Other Income/Other
2 Expenses

3 Q. Please explain your position on this adjustment.

4 A. RUCO did not undertake an analysis or considered adjusting the bad debt
5 provision since the Company records this expense below the line and it
6 does not affect the operating income.

7
8 Operating Income Adjustment No. 7 – Annualization Of Purchased Power

9 Q. Please explain your position on this adjustment.

10 A. As explained in Operating Income Adjustment No. 4 – Revenue
11 Annualization, the Company and RUCO agreed upon an annualized
12 revenue amount. This adjustment reflects the impact of that agreement
13 on purchased power.

14
15 The agreed upon calculation is shown on Schedule RLM-7, column (E),
16 line 8, and increases adjusted test-year expenses by:
17 \$408.

18
19 Operating Income Adjustment No. 8 – Purchased Power – SRP Increase

20 Q. Please explain your position on this adjustment.

21 A. As explained in Operating Income Adjustment No. 4 – Revenue
22 Annualization, the Company and RUCO agreed upon an annualized
23 revenue amount. This adjustment reflects the impact of that agreement

1 on purchased power. related to the SRP increase as filed in the
2 Company's application.

3
4 The agreed upon calculation is shown on Schedule RLM-7, column (E),
5 line 8, and increases adjusted test-year expenses by:
6 \$8.

7
8 Operating Income Adjustment No. 9 – Algonquin Water Services ("AWS")
9 Contract Billing

10 Q. Please explain your position on this adjustment.

11 A. As explained in Operating Income Adjustment No. 4 – Revenue
12 Annualization, the Company and RUCO agreed upon an annualized
13 revenue amount. This adjustment reflects the impact of that agreement
14 on AWS contract billing expense.

15
16 The agreed upon calculation is shown on Schedule RLM-7, column (E),
17 line 14, and increases adjusted test-year expenses by:
18 \$186.

19 ...

20 ...

21 ...

22 ...

23 ...

1 Operating Income Adjustment No. 10 – RUCO’s Removal Of Unnecessary
2 And/Or Inappropriate Expenses

3 Q. Please explain the adjustment to remove unnecessary and/or
4 inappropriate expense.

5 A After an analysis of the Company’s responses to RUCO data requests
6 1.16 and 1.17, I determined there were four expenditures not required for
7 the provisioning of wastewater service.

8 Therefore, as shown on Schedule RLM-9, column (A), I made adjustments
9 to remove test-year expenses related to payments for memberships, gifts,
10 and refreshments, which are not necessary in the provisioning of
11 wastewater service. Documentation denoting each individual expense
12 removed is recorded in my Schedule RLM-10.

13
14 As shown on Schedule RLM-7, column (F), this adjustment decreased
15 test-year expenses by:
16 (\$1,598).

17
18 Operating Income Adjustment No. 11 – RUCO’s Capitalization Of
19 Expenses

20 Q. Please explain your adjustment to capitalize various expenses recorded in
21 the test year as contract services - other and materials and supplies.

22 A. This adjustment reflects the Company’s responses to RUCO’s data
23 request 1.16 and Staff’s date request CSB 1.01. Based on my analysis of

1 Gold Canyon's invoices provided in the Company's response, I capitalized
2 expenditures deemed to meet the criteria outlined in the Company's
3 response to Staff data request CSB 2.20.

4
5 This is a companion adjustment to Rate Base Adjustment No. 5 –
6 Capitalization of Plant Formerly Expensed. Please see Schedule RLM-2,
7 column (F) and the testimony on pages 14 and 15 for a full explanation of
8 the capitalization treatment of this adjustment.

9
10 As shown on Schedule RLM-7, column (G), this adjustment decreases
11 adjusted test-year expenses by:
12 (\$7,045).

13
14 Operating Income Adjustment No. 12 – Removal Of Non-Recurring/Non-
15 Typical Expenses

16 Q. Please explain your adjustment to remove various expenses considered
17 non-recurring and/or non-typical.

18 A. This adjustment reflects the Company's responses to RUCO's data
19 request 1.16 and Staff's data request CSB 1.01. Based on my analysis of
20 Gold Canyon's invoices provided in the Company's responses, I removed
21 atypical expenditures.

22 . . .

23 . . .

1 Documentation denoting each individual expense removed is recorded in
2 Schedule RLM-10. I made adjustments to remove test-year expenses
3 related to payments for backhoe rental (now a purchased plant item),
4 sludge removal, legal expense for another CC&N and cost to move
5 telephone equipment, which are non-recurring and/or non-typical.

6 As shown on Schedule RLM-7, column (H), this adjustment decreased
7 test-year expenses by:
8 (\$77,731).

9

10 RUCO Operating Income Adjustment No. 13 – Income Taxes

11 Q. Please explain your adjustment to income tax expenses.

12 A. This adjustment reflects income tax expenses calculated on RUCO's
13 recommended revenues and expenses.

14 As shown on Schedule RLM-7, column (I), this adjustment decreases
15 adjusted test-year expenses by:
16 (\$53,378).

17

18 **COST OF CAPITAL**

19 Q. Is RUCO proposing any adjustments to the Company proposed cost of
20 capital?

21 A. Yes, it is. This adjustment decreases the Company's cost of common
22 equity and therefore its weighted cost of capital by 169 basis points from
23 10.50 to 8.81 percent to reflect current market conditions.

1 This adjustment is fully explained in the testimony of RUCO witness
2 William A. Rigsby.

3

4 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

5 Q. Have you prepared a Schedule presenting your recommended rate
6 designs?

7 A. Yes, as shown on Schedule RLM-15, I am recommending a rate design
8 that is consistent with RUCO's recommended revenue allocations and
9 requirement. The rate design provides for a 42.34 percent increase
10 equally across all classes of service, which is a decrease of 57.26 percent
11 over the Company's requested 99.06 percent.

12

13 Q. Have you prepared a Schedule presenting proof of your recommended
14 revenue?

15 A. Yes, I have. Proof that my recommended rate designs will produce the
16 recommended required revenue as illustrated, is presented also on
17 Schedule RLM-15, starting below line 5.

18

19 Q. Does this conclude your direct testimony?

20 A. Yes, it does.

APPENDIX 1

APPENDIX 1

Qualifications of Rodney Lane Moore

EDUCATION: Athabasca University
Bachelor's Degree in Business Administration - 1993

EXPERIENCE: Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona 85007
May 2001 - Present

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

Auditor
Arizona Corporation Commission
Phoenix, Arizona 85007
October 1999 - May 2001

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>
Rio Verde Utilities, Inc	WS-02156A-00-0321
Black Mountain Gas Company	G-03703A-01-0283
Green Valley Water Company	W-02025A-01-0559
New River Utility Company	W-01737A-01-0662

Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801

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TESTIMONY		RATE BASE ADJUSTMENT NO. 1 - CORRECTION TO COMPANY'S ACCUMULATED DEPRECIATION
TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED AMORTIZATION OF CIAC
RLM-3	1	RATE BASE ADJUSTMENT NO. 3 - ALLOWANCE FOR WORKING CAPITAL
RLM-4	1	RATE BASE ADJUSTMENT NO. 4 - RUCO ADJUSTMENT TO REMOVE EXCESS TREATMENT PLANT CAPACITY
TESTIMONY		RATE BASE ADJUSTMENT NO. 5 - RUCO ADJUSTMENT TO CAPITALIZE PLANT FORMERLY EXPENSED
RLM-5	1	PLANT SCHEDULE
RLM-6	1	OPERATING INCOME
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RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 4 - REVENUE ANNUALIZATION
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 5 - REVERSE BAD DEBT PROVISION
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 6 - REMOVE OTHER INCOME/OTHER EXPENSES
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 7 - ANNUALIZED PURCHASED POWER
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 8 - PURCHASED POWER - SRP INCREASE
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 9 - AWS CONTRACT BILLING
RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 10 - RUCO REMOVAL OF INAPPROPRIATE EXPENSES
RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 11 - RUCO CAPITALIZATION OF OPERATING EXPENSES
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 12 - RUCO REMOVAL OF NON-RECURRING EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 13 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL
RLM-15	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 16,108,688	\$ 13,368,387
2	Adjusted Operating Income (Loss)	\$ 171,878	\$ 538,818
3	Current Rate Of Return (L2 / L1)	1.07%	4.03%
4	Required Operating Income (L5 X L1)	\$ 1,691,412	\$ 1,177,755
5	Required Rate Of Return On Fair Value Rate Base	10.50%	8.81%
6	Operating Income Deficiency (L4 - L2)	\$ 1,519,534	\$ 638,937
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 2,474,767	\$ 1,040,595
9	Adjusted Test Year Revenue	\$ 2,496,380	\$ 2,496,369
10	Proposed Annual Revenue (L8 + L9)	\$ 4,971,147	\$ 3,536,964
11	Required Percentage Increase In Revenue (L8 / L9)	99.13%	41.68%
12	Rate Of Return On Common Equity	10.50%	9.04%

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule RLM-2, RLM-6, And RLM-14

REVENUE REQUIREMENT - CONT'D
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	(0.3860)			
3	Subtotal (L1 + L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
	CALCULATION OF EFFECTIVE TAX RATE:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Col. (B), L4)	\$ 1,177,755			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Col. (B), L2)	538,818			
13	Required Increase In Operating Income (L11 - L12)		\$ 638,937		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 456,328			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	54,670			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 401,658		
17	Total Required Increase In Revenue (L13 + L16)		\$ 1,040,595		
	CALCULATION OF INCOME TAX:				
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Col. (B), L10)			\$ 3,536,964	
19	Operating Expense Excluding Income Tax (RLM-5, Col. (E), L25 - L24)			(1,902,881)	
20	Synchronized Interest (Col. (C), L37)			(451,851)	
21	Arizona Taxable Income (L18 + L19 + L20)			\$ 1,182,232	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 82,378
24	Fed. Taxable Income (L21 - L23)			\$ 1,099,854	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			260,050	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 373,950
31	Combined Federal And State Income Tax (L23 + L30)				\$ 456,328
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L24)				\$ 54,670
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L24)				\$ 401,658
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
	CALCULATION OF INTEREST SYNCHRONIZATION:				
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 13,368,387	
36	Weighted Avg. Cost Of Debt (Sch. RLM-14, Col. (F), L1)			3.38%	
37	Synchronized Interest (L35 X L36)			\$ 451,851	

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJM'T NO. 1	(C) RUCO ADJM'T NO. 2	(D) RUCO ADJM'T NO. 3	(E) RUCO ADJM'T NO. 4	(F) RUCO ADJM'T NO. 5	(G) RUCO ADJM'T NO. 6	(H) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 21,359,395	\$ -	\$ -	\$ -	\$ (2,901,605)	\$ 7,045	\$ -	\$ 18,464,835
2	Accumulated Depreciation	(1,608,290)	61,886	-	-	36,270	(73)	-	(1,510,207)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 19,751,105</u>	<u>\$ 61,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,865,335)</u>	<u>\$ 6,972</u>	<u>\$ -</u>	<u>\$ 16,954,628</u>
4	Advances In Aid Of Const.	\$ (2,064,125)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,064,125)
5	Contribution In Aid Of Const.	\$ (1,827,557)	\$ -	\$ -	\$ -	\$ 77,285	\$ -	\$ -	\$ (1,750,272)
6	Accumulated Amortization Of CIAC	145,364	-	(6,576)	-	(966)	-	-	\$ 137,822
7	NET CIAC (L5 + L6)	<u>\$ (1,682,193)</u>	<u>\$ -</u>	<u>\$ (6,576)</u>	<u>\$ -</u>	<u>\$ 76,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,612,450)</u>
8	Customer Meter Deposits	\$ (30,769)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (30,769)
	Working Capital:								
9	1/8 Oper. & Maint. Exp.	\$ 116,481	\$ -	\$ -	\$ (13,586)	\$ -	\$ -	\$ -	\$ 102,895
10	1/24 Pumping Power	4,460	-	-	17	-	-	-	4,477
11	1/24 Purchased Treatment	-	-	-	-	-	-	-	-
12	Materials And Supplies Inventories	-	-	-	-	-	-	-	-
13	Prepayments	13,731	-	-	-	-	-	-	13,731
14	Working Capital (Sum L8 Thru L12)	<u>\$ 134,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,569)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,103</u>
15	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 & 14)	<u>\$ 16,108,690</u>	<u>\$ 61,886</u>	<u>\$ (6,576)</u>	<u>\$ (13,569)</u>	<u>\$ (2,789,016)</u>	<u>\$ 6,972</u>	<u>\$ -</u>	<u>\$ 13,368,387</u>

References:

Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): Adjustment No. 1 - Company's Calculation Of Accumulated Depreciation (See Testimony, RLM)
Column (C): Adjustment No. 2 - Contributions-In-Aid Of Construction (See Testimony, RLM)
Column (D): Adjustment No. 3 - The Allowance For Working Capital (See RLM-3, Column (C), Line 26)
Column (E): Adjustment No. 4 - Remove Excess Capacity (See RLM-4, Page 1)
Column (F): Adjustment No. 5 - Capitalize Plant (See RLM-4, Page 1, Columns (C) & (D), Line 36)
Column (G): Intentionally Left Blank
Column (H): Sum Of Columns (A), (B), (C), (D), (E) & (F)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 2
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJ'TS	REF	(C) RUCO AS ADJUSTED
	Cash Working Capital:				
1	1/8 Operations and Maintenance Expense	\$ 116,481	\$ (13,586)	A	\$ 102,895
2	1/24 Pumping Power Expense	4,460	17	B	4,477
3	1/24 Purchased Wastewater Treatment	2,420	-	C	2,420
4	Materials and Supplies Inventories	-	-	D	-
5	Prepayments	13,731	-	E	13,731
6	Total Working Capital Allowance (Sum L1 Thru L5)	<u>\$ 137,092</u>	<u>\$ (13,569)</u>	F	<u>\$ 123,523</u>
	Adjustments:				
	A - 1/8 Operations and Maintenance Expense				
7	As Per RUCO RLM-6 Col. (E), L25 - L's 6, 8, 21, 22, 23 & 24				\$ 823,157
8	As Per Company's Application (Schedule B-5)				931,845
9	Difference (L8 - L9)				<u>\$ (108,688)</u>
10	1/8 of Difference (L9 x 1/ 8)				<u>\$ (13,586)</u>
	B - 1/24 Pumping Power Expense				
11	As Per RUCO Sch. RLM-6 Col. (E), Line 8				\$ 107,456
12	As Per Company's Application (Schedule C-1)				107,040
13	Difference (L12 - L13)				<u>\$ 416</u>
14	1/24 of Difference (L14 X 1/24)				<u>\$ 17</u>
	C - 1/24 Purchased Wastewater Treatment Charges				
15	As Per RUCO Sch. RLM-6 Col. (E), Line 6)				\$ -
16	As Per Company's Application (Schedule C-1)				-
17	Difference (L16 - L17)				<u>\$ -</u>
18	1/24 of Difference (L18 X 1/24)				<u>\$ -</u>
	D - Materials and Supplies Inventories				
19	As Per RUCO				\$ -
20	As Per Company's Application (Schedule E-1)				-
21	Difference (L20 - L21)				<u>\$ -</u>
	E - Prepayments				
22	As Per RUCO				\$ 13,731
23	As Per Company's Application (Schedule E-1)				13,731
24	Difference (L23 - L24)				<u>\$ -</u>
25	F - Total Working Capital Allowance Adjustment (L10 + L14 + L18 + L21 + L24)				<u>\$ (13,569)</u>
26	RUCO Adjustment (Line 25) (See RLM-2, Column (D))				<u><u>\$ (13,569)</u></u>

References:

Column (A): Company Schedule B-5
Column (B): See Adjustments A, B, C, D, E & F
Column (C): Column (A) + Column (B)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 4
REMOVAL OF EXCESS TREATMENT PLANT CAPACITY**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PHASE III PLANT ADDITIONS	(B) 28.05% EXCESS CAPACITY	(C) AUTHORIZED DEPRECIATION RATES	(D) EXCESS CAPACITY ACC. DEP.
1	351	Organization	\$ -	\$ -	0.00%	\$ -
2	352	Franchises	-	-	0.00%	-
3	353	Land and Land Rights	-	-	0.00%	-
4	354	Structures And Improvements	3,045,954	(854,470)	2.50%	10,681
5	355	Power Generation Equipment	-	-	2.50%	-
6	360	Collection Sewers - Force	6,713	(1,883)	2.50%	24
7	361	Collection Sewers - Gravity	20,096	(5,637)	2.50%	70
8	362	Special Collecting Structures	-	-	2.50%	-
9	363	Services To Customers	-	-	2.50%	-
10	364	Flow Measuring Devices	-	-	2.50%	-
11	365	Flow Measuring Installations	-	-	2.50%	-
12	370	Receiving Wells	-	-	2.50%	-
13	371	Pumping Equipment	-	-	2.50%	-
14	380	Treatment And Disposal Equipment	7,260,433	(2,036,743)	2.50%	25,459
15	381	Plant Sewers	-	-	2.50%	-
16	382	Outfall Sewer Lines	-	-	2.50%	-
17	389	Other Plant And Miscellaneous Equipment	-	-	2.50%	-
18	390	Office Furniture And Equipment	10,238	(2,872)	2.50%	36
19	391	Transportation Equipment	-	-	2.50%	-
20	393	Tools, Shop And Garage Equipment	-	-	2.50%	-
21	394	Laboratory Equipment	-	-	2.50%	-
22	395	Power Operated Equipment	-	-	2.50%	-
23	398	Other Tangible Plant	-	-	2.50%	-
24		RUCO Accepts Company Adjustment No. 1	-	-	2.50%	-
25		RUCO Accepts Company Adjustment No. 2	-	-	2.50%	-
26		TOTAL WASTEWATER PLANT	<u>\$ 10,343,434</u>	<u>\$ (2,901,605)</u>		<u>\$ 36,270</u>
		Less:				
27		CIAC Attributable To The Plant Expansion (A.C.C. CIAC Report)	\$ 275,500	\$ 77,285	2.50%	\$ (966)
28		Excess Capacity Removed (Line 26 + 27)		<u>\$ (2,824,320)</u>		<u>\$ 35,304</u>
		RUCO ADJUSTMENTS TO REMOVE EXCESS CAPACITY				
29		Excess Gross Plant Adjustment			Column (B), Line 26	\$ (2,901,605)
30		Excess Accumulated Depreciation Adjustment			Column (D), Line 26	36,270
31		Gross CIAC Attributed To Excess Capacity Adjustment			Column (B), Line 27	77,285
32		Accumulated Amortization Of CIAC Adjustment			Column (D), Line 27	(966)
33		TOTAL ADJUSTMENT (See RLM-2, Column (E))			Sum Of Lines 29 Thru 32	<u>\$ (2,789,016)</u>

References:

Columns (A) (C): Company Workpapers
Column (B): Company Response To RUCO Data Request 2.6 c & d
Column (D): Column (B) X Column (C)

NOTE

RUCO ANALYSIS TO DETERMINE PERCENTAGE OF EXCESS CAPACITY

YEAR	DESCRIPTION	FLOW RATE (mgd)	MAXIMUM (mgd)	EXCESS CAPACITY (mgd)	PERCENTAGE EXCESS CAP.
2005	Data Provided By Company In Its	0.708	1.900	1.192	62.74%
2006	Response To RUCO Data Request	1.196	1.900	0.704	37.05%
2007	2.6 c and d	1.283	1.900	0.617	32.47%
2008		1.367	1.900	0.533	28.05%
2009		1.467	1.900	0.433	22.79%
2010		1.574	1.900	0.326	17.16%
2011		1.688	1.900	0.212	11.16%
2012		1.811	1.900	0.089	4.68%

**TEST YEAR PLANT SCHEDULE
YEAR ENDED OCTOBER 31, 2005**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDIT'NS	(B) PLANT RETIRM'TS	(C) TOTAL PLANT VALUE	(D) ACCUM. DEP.	(E) NET PLANT VALUE
1	351	Organization	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000
2	352	Franchises	-	-	25,000	-	25,000
3	353	Land and Land Rights	-	-	-	-	-
4	354	Structures And Improvements	3,849,732	-	4,989,154	(93,040)	4,896,114
5	355	Power Generation Equipment	-	-	-	-	-
6	360	Collection Sewers - Force	6,713	-	79,427	(3,494)	75,933
7	361	Collection Sewers - Gravity	91,374	-	1,570,492	(431,668)	1,138,824
8	362	Special Collecting Structures	-	-	19,067	(1,589)	17,478
9	363	Services To Customers	2,570	-	21,498	(1,391)	20,107
10	364	Flow Measuring Devices	-	-	3,708	(217)	3,491
11	365	Flow Measuring Installations	4,015	-	159,573	(10,613)	148,960
12	370	Receiving Wells	-	-	-	-	-
13	371	Pumping Equipment	13,465	-	66,132	(3,051)	63,081
14	380	Treatment And Disposal Equipment	7,260,433	-	10,128,833	(701,081)	9,427,753
15	381	Plant Sewers	-	-	945	(55)	890
16	382	Outfall Sewer Lines	-	-	-	-	-
17	389	Other Plant And Miscellaneous Equipment	42,034	-	3,408,092	(209,983)	3,198,109
18	390	Office Furniture And Equipment	22,121	-	36,709	(1,410)	35,299
19	391	Transportation Equipment	-	-	-	-	-
20	393	Tools, Shop And Garage Equipment	-	-	-	-	-
21	394	Laboratory Equipment	969	-	15,765	(1,062)	14,703
22	395	Power Operated Equipment	-	-	-	-	-
23	398	Other Tangible Plant	-	-	-	-	-
24		RUCO Accepts Company Adjustment No. 1	-	-	810,000	-	810,000
25		RUCO Accepts Company Adjustment No. 2	-	-	-	(87,750)	(87,750)
26		TOTAL WASTEWATER PLANT	<u>\$ 11,293,426</u>	<u>\$ -</u>	<u>\$ 21,359,395</u>	<u>\$ (1,546,404)</u>	<u>\$ 19,812,991</u>
27		Company As Filed	11,293,426	-	21,359,395	(1,608,290)	19,751,105
28		Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,886</u>	<u>\$ 61,886</u>
29		RUCO Rate Base Adjustment No. 1 (See RLM-2, Column (B))				<u>\$ 61,886</u>	
NOTE		Explanation For The Difference Of \$61,886 In Accumulate Depreciation In Company Workpapers "GCSC Plant.xls" On Schedule B-2, Page 4-f, Column(BE) The Company Incorrectly Calculates A Full Year Of Depreciation Expense And Fails To Recognize The Test Year Ended On October 31, Which Generates Only 10/12th Of A Year Of Depreciation Expense.					
		Excess Capacity (See Testimony, RLM)					
30		Phase III WWTP Expansion - Excess Capacity (RLM-4, Page 1, Line 26)			\$ (2,901,605)	\$ 36,270	
31		RUCO Rate Base Adjustment No. 4 (See RLM-2, Column (E))			<u>\$ (2,901,605)</u>	<u>\$ 36,270</u>	
32		Capitalized Operating Exp. (See RLM-10, C (A), L 22)	\$ 7,045	\$ -	\$ 7,045	\$ (73)	
33		RUCO Rate Base Adjustment No. 5 (See RLM-2, Column (F))			<u>\$ 7,045</u>	<u>\$ (73)</u>	
34		RUCO ADJUSTED PLANT			<u>\$ 18,464,835</u>	<u>\$ (1,510,207)</u>	<u>\$ 16,954,628</u>

References:

Columns (A) (B): Company Schedules B-2, Page 2a Thru B-2, Page 2k

Column (C): [(Col. (A) + Col. (B)) X WP RLM-5, Page 1, Col. (A) X 1/2 yr. conv.] + [WP RLM-4, Page 6, Col. (D) X WP RLM-4, Page 1, Col. (A)]

Column (D): Schedule WP RLM-4, Page 6, Column (D) + (Column (A) + Column (B))

Column (E): Schedule WP RLM-4, Page 6, Column (E) + Column (B) + Column (C)

Column (F): Column (D) - Column (E)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Flat Rate Revenues	\$ 2,451,576	\$ (11)	\$ 2,451,565	\$ 1,040,595	\$ 3,492,160
2	Miscellaneous Service Revenues	44,804	-	44,804	-	44,804
3	Other Wastewater Revenues	-	-	-	-	-
4	TOTAL OPERATING REVENUE	<u>\$ 2,496,380</u>	<u>\$ (11)</u>	<u>\$ 2,496,369</u>	<u>\$ 1,040,595</u>	<u>\$ 3,536,964</u>
	Operating Expenses:					
5	Salaries And Wages	\$ -	-	\$ -	\$ -	\$ -
6	Purchased Wastewater Treatment	6,159	-	6,159	-	6,159
7	Sludge Removal Expense	44,737	-	44,737	-	44,737
8	Purchased Power	107,040	416	107,456	-	107,456
9	Fuel For Power Production	-	-	-	-	-
10	Chemicals	63,590	-	63,590	-	63,590
11	Materials And Supplies	13,042	(1,648)	11,394	-	11,394
12	Contractual Services - Professional	22,068	-	22,068	-	22,068
13	Contractual Services - Testing	11,655	-	11,655	-	11,655
14	Contractual Services - Other	599,919	(61,534)	538,385	-	538,385
15	Repair And Maintenance	-	-	-	-	-
16	Rents	35,925	(22,000)	13,925	-	13,925
17	Transportation Expenses	6,293	-	6,293	-	6,293
18	Insurance	18,680	-	18,680	-	18,680
19	Regulatory Commission Expense	40,000	(22,500)	17,500	-	17,500
20	Miscellaneous Expense	75,936	(1,006)	74,930	-	74,930
21	Depreciation Expense	917,428	(126,675)	790,753	-	790,753
22	Taxes Other Than Income	-	-	-	-	-
23	Property Taxes	253,982	(78,627)	175,355	-	175,355
24	Income Tax	108,048	(53,378)	54,670	401,658	456,328
25	TOTAL OPERATING EXPENSES	<u>\$ 2,324,502</u>	<u>\$ (366,951)</u>	<u>\$ 1,957,551</u>	<u>\$ 401,658</u>	<u>\$ 2,359,209</u>
26	OPERATING INCOME (LOSS)	<u>\$ 171,878</u>		<u>\$ 538,818</u>		<u>\$ 1,177,755</u>

References:

Column (A): Company Schedule C-1

Column (B): RLM-7, Columns (B) Thru (D)

Column (C): Column (A) + Column (B)

Column (D): RLM-14, Column (D), Lines 17 & 18 And RLM-1, Pg 2, Col. (D), Line 33

Column (E): Column (C) + Column (D)

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #10	(G) ADJ #11	(H) ADJ #12	(I) ADJ #13	(J) RUCO AS ADJT'D
	Revenues:										
1	Flat Rate Revenues	\$ 2,451,576	\$ -	\$ -	\$ -	\$ (11)	\$ -	\$ -	\$ -	\$ -	\$ 2,451,565
2	Misc. Service Rev.	-	-	-	-	-	-	-	-	-	-
3	Other WW Rev.	44,804	-	-	-	-	-	-	-	-	44,804
4	TOTAL OPR'G REV.	<u>\$ 2,496,380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,496,369</u>
	Operating Expenses:										
5	Salaries And Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purch'd WW Treat.	6,159	-	-	-	-	-	-	-	-	6,159
7	Sludge Removal Exp.	44,737	-	-	-	-	-	-	-	-	44,737
8	Purchased Power	107,040	-	-	-	416	-	-	-	-	107,456
9	Fuel - Power Prod.	-	-	-	-	-	-	-	-	-	-
10	Chemicals	63,590	-	-	-	-	-	-	-	-	63,590
11	Materials & Supplies	13,042	-	-	-	-	-	(1,648)	-	-	11,394
12	Cont. Ser. - Prof.	22,068	-	-	-	-	-	-	-	-	22,068
13	Cont. Ser. - Testing	11,655	-	-	-	-	-	-	-	-	11,655
14	Cont. Ser. - Other	599,919	-	-	-	186	(831)	(5,397)	(55,492)	-	538,385
15	Repair And Maint.	-	-	-	-	-	-	-	-	-	-
16	Rents	35,925	-	-	-	-	-	-	(22,000)	-	13,925
17	Transportation Exp.	6,293	-	-	-	-	-	-	-	-	6,293
18	Insurance	18,680	-	-	-	-	-	-	-	-	18,680
19	Reg. Comm. Exp.	40,000	-	-	(22,500)	-	-	-	-	-	17,500
20	Misc. Expense	75,936	-	-	-	-	(767)	-	(239)	-	74,930
21	Dep. Expense	917,428	(126,675)	-	-	-	-	-	-	-	790,753
22	Taxes Other Than Inc	-	-	-	-	-	-	-	-	-	-
23	Property Taxes	253,982	-	(78,627)	-	-	-	-	-	-	175,355
24	Income Tax	108,048	-	-	-	-	-	-	-	(53,378)	54,670
25	TOTAL OPR'G EXP.	<u>\$ 2,324,502</u>	<u>\$ (126,675)</u>	<u>\$ (78,627)</u>	<u>\$ (22,500)</u>	<u>\$ 602</u>	<u>\$ (1,598)</u>	<u>\$ (7,045)</u>	<u>\$ (77,731)</u>	<u>\$ (53,378)</u>	<u>\$ 1,957,551</u>
26	OPR'G INC. (LOSS)	<u>\$ 171,878</u>									<u>\$ 538,818</u>
ADJUSTMENTS:		REFERENCE:				ADJUSTMENTS:			REFERENCE:		
1 -	Test-Year Dep. Expense	Testimony, RLM And Schedule RLM-7				8 - Purchased Power To SRP Increase			Testimony, RLM (See Adjustment # 4)		
2 -	Property Tax Computation	Testimony, RLM And Schedule RLM-8				9 - AWS Contract Billings			Testimony, RLM (See Adjustment # 4)		
3 -	Rate Case Expense	Testimony, RLM				10 - Adjustment To Inappropriate Expenses			Testimony, RLM And Schedule RLM-9		
4 -	Revenue Annualization	Testimony, RLM				11 - Capitalization Of Operating Expenses			Testimony, RLM And Schedule RLM-10		
5 -	Reverse Bad Debt Provision	NO ADJUSTMENT				12 - Adjustment To Non-Recurring Expenses			Testimony, RLM And Schedule RLM-11		
6 -	Remove Other Inc./ Exp.	NO ADJUSTMENT				13 - Income Tax			Testimony, RLM And Schedule RLM-12		
7 -	Annualized Purchased Power	Testimony, RLM (See Adjustment # 4)									

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APR'D DEP. RATE	(C) TEST YEAR DEPRECIATION EXPENSE
1	351	Organization	\$ 25,000	0.00%	\$ -
2	352	Franchises	25,000	0.00%	-
3	353	Land and Land Rights	-	0.00%	-
4	354	Structures And Improvements	4,140,081	3.33%	137,865
5	355	Power Generation Equipment	-	5.00%	-
6	360	Collection Sewers - Force	77,544	2.00%	1,551
7	361	Collection Sewers - Gravity	1,564,855	2.00%	31,297
8	362	Special Collecting Structures	19,067	2.00%	381
9	363	Services To Customers	21,498	2.00%	430
10	364	Flow Measuring Devices	3,708	10.00%	371
11	365	Flow Measuring Installations	159,573	10.00%	15,957
12	370	Receiving Wells	-	3.33%	-
13	371	Pumping Equipment	66,132	12.50%	8,267
14	380	Treatment And Disposal Equipment	8,092,090	5.00%	404,605
15	381	Plant Sewers	945	5.00%	47
16	382	Outfall Sewer Lines	-	3.33%	-
17	389	Other Plant And Miscellaneous Equipment	3,408,092	6.67%	227,320
18	390	Office Furniture And Equipment	33,837	6.67%	2,257
19	391	Transportation Equipment	-	20.00%	-
20	393	Tools, Shop And Garage Equipment	-	5.00%	-
21	394	Laboratory Equipment	17,413	10.00%	1,741
22	395	Power Operated Equipment	-	5.00%	-
23	398	Other Tangible Plant	-	10.00%	-
24		RUCO Accepts Company Adjustment No. 1	810,000	5.00%	40,500
25		RUCO Accepts Company Adjustment No. 2	-		
26		TOTAL WASTEWATER PLANT	<u>\$ 18,464,835</u>		<u>\$ 872,588</u>
		Less:			
22		Amortizations Of CIAC	\$ (1,750,272)	4.68%	(81,835)
23		TOTAL DEPRECIATION EXPENSE (Line 21 + Line 22)			<u>\$ 790,753</u>
24		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			917,428
25		Decrease Of Depreciation Expense (Line 23 - Line 24)			<u>\$ (126,675)</u>
26		RUCO Adjustment (Line 25) (See RLM-6, Column (B), Line 21)			<u>\$ (126,675)</u>

References:

Column (A): RLM-4, Column (D)
Column (B): Company Schedule C-2, Page 2
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
	Calculation Of The Company's Full Cash Value:			
	Annual Operating Revenues:			
1	Year 2003 (Company Schedule E-6)	Co. Sch. E-2	\$ 2,034,111	
2	Year 2004 (Company Schedule E-6)	Co. Sch. E-2	2,251,095	
3	Year 2005 (Company Schedule E-6)	Co. Sch. E-2	2,440,694	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 6,725,900	
5	Average Annual Operating Revenues	Line 4 / 3	<u>2,241,967</u>	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 4,483,933
	ADD:			
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1	\$ 7,690	
8	10% Of CWIP	Line 7 X 10%		\$ 769
	SUBTRACT:			
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	RLM-4, P 12, C (D), L 14	\$ -	
10	Acc. Dep. Of Transportation Equipment	RLM-4, P 12, C (E), L 14	<u>-</u>	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		<u>\$ 4,484,702</u>
	Calculation Of The Company's Tax Liability:			
	MULTIPLY:			
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	24.0%	
14	Assessed Value	Line 12 X Line 13	\$ 1,076,329	
	Property Tax Rates:			
15	Primary Tax Rate - 2005 Tax Notice	RUCO Data Req. 1.12	11.35%	
16	Secondary Tax Rate - 2005 Tax Notice	RUCO Data Req. 1.12	<u>4.94%</u>	
17	Estimated Tax Rate Liability	Line 15 + Line 16	16.29%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		<u>\$ 175,355</u>
19	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 25		<u>253,982</u>
20	Decrease In Property Tax Expense	Line 18 - Line 19		<u>\$ (78,627)</u>
21	RUCO Adjustment (See RLM-6, Column (C), Line 23)	Line 20		<u><u>\$ (78,627)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 10
REMOVAL OF UNNECESSARY/INAPPROPRIATE OPERATING EXPENSES**

			(A)
LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
	Account No. 8200-2-0200-69-5150-0000 - Miscellaneous Expenses		
1	CT Corporation (Membership)	Test-Year General Ledger - Journal Entry 24725	\$ (229)
2	Gold Canyon Business Association (Membership)	Test-Year General Ledger - Journal Entry 25377	(35)
3	Gold Canyon Golf Resort (Grass Carp)	Test-Year General Ledger - Journal Entry 28747	(503)
4	RUCO Adjustment (See RLM-6, Column (G), Line 20)	Sum Of Lines 1 Thru 3	<u>\$ (767)</u>
	Account No. 8200-2-0200-69-5200-0100 - Contract Services Other		
5	Mail Box Etc.	Test-Year General Ledger - Journal Entry 29119	\$ -
6	Sparkletts (12 Journal Entries) (Bottled Water)	Company's Response To Staff Data Request CSB 2.33	(831)
7	RUCO Adjustment (See RLM-6, Column (G), Line 14)	Sum Of Lines 5 And 6	<u>\$ (831)</u>
8	RUCO Adjustment To Remove Unnecessary/Inappropriate Expens	Sum Of Lines 4 And 7	<u>\$ (1,598)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 11
REMOVAL OF CAPITALIZED OPERATING EXPENSES**

			(A)
LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
	Account No. 8200-2-0200-69-5200-0100 - Contract Services Other		
1	CSA Engineering, Inc. (Inspection Report)	Test-Year General Ledger - Journal Entry 24679	\$ -
2	CSA Engineering, Inc.(Inspection Report) (See NOTE A)	Line 9	(5,397)
3	RUCO Adjustment (See RLM-6, Column (H), Line 14)	Sum Of Lines 1 And 2	<u><u>\$ (5,397)</u></u>
	Account No. 8200-2-0200-52-5520-0000 - Materials And Supplies		
4	USA Blue Book (Microscope)	Test-Year General Ledger - Journal Entry 24695	\$ (1,648)
5	RUCO Adjustment (See RLM-6, Column (H), Line 11)	Sum Of Line 4	<u><u>\$ (1,648)</u></u>
6	RUCO Adjustment To Remove Capitalized Expense:	Sum Of Lines 3 And 5	<u><u>\$ (7,045)</u></u>

NOTE A

As Per Company's Response To RUCO Data Request 3.4,
Journal Entry 24679 Was Capitalized At 60% And Recorded To
Gold Canyon Plant Account 360; Therefore I Am Removing The
Capitalized Portion Of Journal Entry 25962 At 60%, And Adjusting Rate Base.

Journal Entry 25962:

Remove Capitalized Portion At 60%.

7	\$ 8,995
8	-60%
9	<u><u>\$ (5,397)</u></u>

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 12
REMOVAL OF NON-RECURRING/NON-TYPICAL OPERATING EXPENSES

			(A)
LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
Account No. 8200-2-0200-69-5105-0000 - Rent Intercompany			
1	Black Mountain Sewer Company (Backhoe Rental)	Company's Response To Staff Data Request CSB 2.14	\$ (22,000)
2	RUCO Adjustment (See RLM-6, Column (I), Line 16)	Sum Of Line 1	<u>\$ (22,000)</u>
Account No. 8200-2-0200-69-5200-0100 - Contract Services Other			
3	Ancon Marine (Sludge Removal)	Test-Year General Ledger - Journal Entry 25438	\$ (15,000)
4	Red J Environmental Corp. (Sludge Removal)	Test-Year General Ledger - Journal Entry 25442	(11,220)
5	Red J Environmental Corp. (Sludge Removal)	Test-Year General Ledger - Journal Entry 25443	(15,600)
6	Fennemore Craig, P.C. (CC&N - Estrada Del Oro)	Test-Year General Ledger - Journal Entry 24199	(6,836)
7	Fennemore Craig, P.C. (CC&N - Estrada Del Oro)	Test-Year General Ledger - Journal Entry 24199	(6,836)
8	RUCO Adjustment (See RLM-6, Column (H), Line 11)	Sum Of Lines 3 Thru 7	<u>\$ (55,492)</u>
Account No. 8200-2-0200-69-5150-0000 - Miscellaneous Expenses			
9	Qwest (Moving Equipment)	Test-Year General Ledger - Journal Entry 24199	\$ (239)
10	RUCO Adjustment (See RLM-6, Column (H), Line 14)	Sum Of Line 9	<u>\$ (239)</u>
11	RUCO Adjustment To Remove Non-Recurring Expense:	Sum Of Lines 2, 8 And 10	<u>\$ (77,731)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 13
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-5, Column (C), L26 + L24	\$ 593,488
	LESS:		
2	Arizona State Tax	Line 11	(9,869)
3	Interest Expense	Note (A) Line 20	(451,851)
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 131,768
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 44,801</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 593,488
	LESS:		
8	Interest Expense	Note (A) Line 20	(451,851)
9	State Taxable Income	Line 7 - Line 8	<u>\$ 141,637</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 9,869</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 44,801
13	State Income Tax Expense	Line 11	9,869
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ 54,670</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		<u>108,048</u>
16	Total Income Tax Adjustmen	Line 14 - Line 15	<u>\$ (53,378)</u>
17	RUCO Adjustment (See Sch. RLM-6, Column (J), L24)	Line 16	<u>\$ (53,378)</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (E), L15)	\$ 13,368,387
19	Weighted Cost Of Debt (Sch. RLM-12, Col. (F), L1)	3.38%
20	Interest Expense (L17 X L18)	<u>\$ 451,851</u>

COST OF CAPITAL

	(A)	(B)	(C)	(D)	(E)	(F)
LINE NO.	DESCRIPTION			CAPITAL RATIO	COST	WEIGHTED COST RATE
1	Long-Term Debt			40.00%	8.45%	3.38%
2	Stockholder's Equity			60.00%	9.04%	5.43%
3	TOTAL CAPITAL			100.00%		
4	COST OF CAPITAL					8.81%

References:

Column (C): Intentionally Left Blank
Column (B): Intentionally Left Blank
Column (A): Intentionally Left Blank
Column (D): Hypothetical Capital Structure
Column (E): Testimony, WAR
Column (F): Column (D) X Column (E)

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) PRESENT RATES	(B) COMPANY PROPOSED	(C) RUCO PROPOSED	(D) RUCO PERCENTAGE INCREASE
MONTHLY FLAT RATE CHARGE					
CLASSES OF SERVICE					
1	Residential	\$ 35.00	\$ 70.34	\$ 49.83	42.36%
2	Residential (<700 SF) Per Dwelling	\$ 19.09	\$ 38.37	\$ 27.18	42.38%
3	Residential (HOA's)	\$ 31.82	\$ 63.95	\$ 45.30	42.36%
4	Commercial, Per ADEQ Bulletin 12	\$ 0.175	\$ 0.352	\$ 0.25	42.36%
5	Effluent Sales, Per 1,000 Gallons	\$ 0.391	\$ 0.786	\$ 0.56	42.46%

PROOF OF RECOMMENDED REVENUE

	DESCRIPTION	(A) AVERAGE GALLONAGE	(B) ANNUALIZED CUSTOMER LEVEL	(C) RUCO PROPOSED MONTHLY RATES	(D) RUCO PROPOSED REVENUE
FLAT RATE CHARGES					
6	Residential		5,016	\$ 49.83	\$ 2,999,100
7	Residential (<700 SF) Per Dwelling		259	\$ 27.18	84,474
8	Residential (HOA's)		202	\$ 45.30	109,805
9	Commercial, Per ADEQ Bulletin 12	40,458	25	\$ 0.249	253,660
10	Effluent Sales, Per 1,000 Gallons	2,382,750	3	\$ 0.557	\$ 45,126
11	TOTAL ANNUALIZED WASTEWATER REVENUE			Sum Of Lines 7 Thru 15	<u>\$ 3,492,166</u>
MISCELLANEOUS REVENUES					
12	Difference between Bill Count And General Ledger			WP RLM-14	(6)
13	Miscellaneous Revenues			Company Workpapers	44,804
14	Other Wastewater Revenues				-
15	TOTAL MISCELLANEOUS REVENUE			Sum Of Lines 18 And 19	<u>\$ 44,798</u>
16	TOTAL PROPOSED OPERATING REVENUE (See RLM-5, Col. (E), Line 4)			Sum Of Lines 17 & 22	<u>\$ 3,536,964</u>
17	Required Revenue	As Per Schedule RLM-1, Page 1, Column (B), Line 10			3,536,964
18	Difference	Line 21 - Line 22			<u>\$ 0</u>